



OFFICE OF THE  
CITY AUDITOR

**AUDIT OF CITY VENTURE  
CORPORATION'S COMMUNITY  
DEVELOPMENT BLOCK GRANT  
FUNDED PROJECT FOR THE  
CITY OF SAN JOSE**

**A REPORT TO THE  
SAN JOSE  
CITY COUNCIL  
DECEMBER 1985**

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## EXECUTIVE SUMMARY

At the request of the City Council, we have analyzed the expenditures and activities of the City Venture Corporation (CVC) while conducting an economic development project for the City of San Jose between June 7, 1983, and June 30, 1984. CVC is a private for-profit company that received a total of \$269,535 in Community Development Block Grant funds from the City to provide services that would facilitate the establishment and expansion of small businesses and create jobs on the East Side of San Jose.

We found that of the \$269,535 the City of San Jose paid City Venture Corporation (CVC), \$109,073 was for Corporate Costs. Our review revealed that these Corporate Costs were not determined in accordance with applicable Federal regulations. As a result, the City of San Jose is potentially liable to repay the Federal Government \$109,073 it paid to CVC for Corporate Costs. The City's contract with CVC provides for the disallowance of any costs that do not meet Federal regulations. Accordingly, the City should initiate action to secure repayment of the Corporate Costs paid to CVC.

Further, we found that the contract between the City and CVC did not contain a detailed line-item budget, which left the City at a disadvantage in controlling and monitoring project expenses. The Neighborhood Preservation Office does include these budgets in other contracts with organizations receiving Community Development Block Grant funds, but the only fiscal control that the City appears to have had in the case of CVC is a provision allowing the Director of the Neighborhood Preservation Office to disallow costs through audits, subject to Federal regulations governing the use of Federal grants.

In addition to the \$109,073 in Corporate Costs, CVC claimed \$160,462 in direct costs such as personnel, travel office expenses and other direct costs. We found that most of the direct costs charged to the project were reasonable and appear to be allowable. An exception was \$400 in air fare charges inappropriately charged to the San Jose project.

As requested by the City Council, we assessed the benefits to the City resulting from CVC's services. We found that CVC provided most, but not all, of the services required in their final contract with the City. The contract's original Scope of Services was amended in April, 1984, deleting and adding some tasks from the original contract. During the

project year, CVC was not obligated to create small businesses or jobs but to establish a network of public and private sector businesses that would facilitate the establishment and expansion of small businesses, thus creating jobs on the East Side of San Jose. This network was to exist after CVC's services were concluded. Some of the specific elements of this network, such as a privately funded Seed Capital Fund, a Business and Technology Center, an Interim Business Service Center and a Community Development Corporation have not yet materialized.

There are no records available indicating that any businesses have been created or expanded or that any jobs have been created to date as a result of CVC's services. On the other hand, a number of public and private sector representatives formed an advisory committee to assist the CVC project. Of this committee, five members later joined the San Jose Development Corporation's Board of Directors which is also involved with assisting the City in economic development. In addition, as a result of CVC's services, a Business and Technology Center is also being planned for the East Side of San Jose on what is presently the Thunderbird Golf Course site by Control Data Corporation and the South Bay Development Company. The benefits of the Business and Technology Center are expected to include small business establishment and expansion and job creation.

It is recommended that:

**Recommendation #1:**

The City Council direct the Neighborhood Preservation Office to initiate action to secure repayment of the \$109,073 that CVC claimed for Corporate Costs. (Priority 1)

**Recommendation #2:**

The City Council direct the Neighborhood Preservation Office to include detailed line-item budgets in all contracts with organizations that receive funding from the City's Community Development Block Grant. (Priority 2)

**Recommendation #3:**

The Neighborhood Preservation Office disallow the \$400 inappropriately charged to the San Jose project for air fare costs. (Priority 1)

**Recommendation #4:**

The City Council direct the Neighborhood Preservation Office to provide summaries of expected benefits resulting from future economic development implementation projects that are being considered for City funding. Therefore, the Neighborhood Preservation office should require community-based organizations and private for-profit groups to submit proposals that include information on the number of jobs to be created, the cost per job to be created, and information on how these numbers are determined. (Priority 2)

## BACKGROUND

In June 1983, the City contracted with City Venture Corporation (CVC), a for-profit business, to develop and implement a job creation project for San Jose that focuses on providing opportunities for small businesses. City Venture, which was formed by a consortium of businesses and churches, has managed the development and implementation of similar job creation projects in other cities such as San Antonio, Toledo and Philadelphia. Control Data Corporation, the largest shareholder of the company, owns 40 percent of the company's stock. Other shareholders include Reynolds Metals, Dayton Hudson, and the American Lutheran Church.

The City funded the CVC contract in two phases. In early 1983, CVC submitted an application for approximately \$470,000 in Community Development Block Grant (CDBG) funds for an 18-24 month economic development project. However, the City required CVC to rewrite their proposal for a 12-month period because the City only funds these projects for a maximum of 12 months. After the 12 month proposal was submitted, the City recommended funding the project for only seven months, from June 7, 1983, to December 31, 1983, at a total cost of \$150,000. Under this contract, CVC was required to perform the services specified in the contract for the first two quarters of the 12-month proposal. The project was funded in this manner to allow CVC to start the project and then, if additional funds became available, they could apply for additional funds.

In November, 1983, the City received a one-time additional allocation of CDBG funds of \$119,535, through the Federal Emergency Jobs Appropriation Act (commonly known as the "Jobs Bill"). These funds were directed to CVC for an extension of their contract through June 30, 1984. The contract extension incorporated the services that were specified for the last two quarters of the original 12-month proposal. The total contract was set at an amount not to exceed \$269,535.

The scope of services of the CVC contract contained the following components:

1. Business Identification Program;
2. Community Education/Outreach Program;
3. Cooperation Office;
4. Seed Capital Fund;
5. Business and Technology Center; and
6. Small Business Education Office

Appendix III contains the contract's scope of services.

A brief description of each of these components is as follows:

#### Business Identification Program

CVC stated that it would identify potential new business opportunities by analyzing purchasing practices of businesses and local governmental entities in the San Jose area to identify goods and services being purchased from companies outside the area.

#### Cooperation Office

CVC stated that it would provide technical assistance to small businesses.

#### Seed Capital Fund

CVC stated that it would assist in establishing a fund to provide equity financing for new and expanding businesses.

#### Business and Technology Center

CVC stated that it would assist in starting a privately owned center that rents space and provides services to new and existing small businesses.

#### Community Education/Outreach Program

CVC stated that it would identify persons interested in starting their own businesses.

#### Small Business Education Program

CVC stated that it would develop a program to publicize methods for starting or owning a small business.

The contract's Scope of Services was later revised, based on recommendations by the CVC Project Advisory Committee. The Advisory Committee, which was comprised of local business and civic officials, believed that changes were necessary to successfully implement the project in San Jose. In April 1984, CVC submitted a revised Scope of Services to the City, and in May 1984, the City Council approved the amended agreement. The new agreement added and deleted sections of the contract's Scope of Services. The changes are shown in Appendix III. The CVC contract expired on June 30, 1984, and the company did not apply for additional funding to continue the project at that time.

## SCOPE AND METHODOLOGY

We reviewed the CVC contract to determine all the expenditures that were charged to the contract from June 7, 1983, to June 30, 1984. We also reviewed these expenditures to determine if they were 1) appropriate, 2) in accordance with the contract requirements, and 3) were allowable under federal reimbursement guidelines. In addition, we reviewed the project contract to determine CVC's compliance and assessed the benefits that the City of San Jose derived from the contract.

In conducting this audit, we reviewed CVC accounting records and contract files, the contract between CVC and the City, and appropriate Federal regulations. In addition, we interviewed City Venture Corporation and Control Data Corporation officials, City of San Jose officials that were involved with the contract, and members of the City Venture Advisory Committee.

We also requested the City Attorney's Office to provide us with a legal opinion to determine whether the City can disallow costs charged to the contract that are not "eligible costs" under federal regulations.

To assist us in the audit, we contracted with the Harvey M. Rose Accountancy Corporation, Certified Public Accountants, who assisted in the field work and in the preparation of the audit report.



## FINDING 1

### THE CITY OF SAN JOSE IS POTENTIALLY LIABLE FOR \$109,073 IN CORPORATE COSTS PAID TO CITY VENTURE CORPORATION

Of the \$269,535 the City of San Jose paid the City Venture Corporation (CVC), \$109,073 was for Corporate Costs. Our review revealed that these Corporate Costs were not determined in accordance with applicable Federal regulations. As a result, the City of San Jose is potentially liable to repay the Federal government for the \$109,073 it paid to CVC for those Corporate Costs. The City's contract with CVC provides for the disallowance of any costs that do not meet Federal regulations. Accordingly, the City should initiate action to secure repayment of Corporate Costs paid to CVC.

From June 7, 1983 to June 30, 1984, the City of San Jose contracted with CVC to implement a job creation program in San Jose. CVC's contract with the City provided for a payment of up to \$269,535 for CVC's services and all eligible costs, as follows:

"CITY agrees to pay CONTRACTOR ... a sum of money not to exceed ... \$269,535. Such sum shall be expended and paid by CITY to CONTRACTOR during the term of this agreement on a fixed fee basis for services actually performed by CONTRACTOR and for eligible costs actually incurred by and paid by CONTRACTOR, pursuant to this agreement..."

It should be noted that the contract between the City and CVC states that eligible project costs are those that comply with all pertinent Federal CDBG regulations. Section 9.D.4.c. of the contract provides the Director of the Neighborhood Preservation Office with the authority to disallow project costs, as follows:

"CONTRACTOR is liable for repayment of disallowed costs as determined by CITY and/or HUD. Disallowed costs may be identified through audits, monitoring or other sources. CONTRACTOR shall be afforded the opportunity to respond to any adverse findings which may lead to disallowed costs. DIRECTOR (of Private Development\*) shall make the final determination of disallowed costs, subject to provisions of OMB circular A-102."

\*The Private Development Office is now known as the Neighborhood Preservation Office.

Audit staff requested an opinion from the City Attorney's Office to verify that the City can disallow ineligible costs charged to the contract. In its opinion, the City Attorney stated that the City can disallow ineligible costs that CVC charged to the contract as follows:

"I have reviewed the contract between the City of San Jose and City Venture Corporation, and your Memorandum of November 6, 1985, concerning this contract. Based on that review, it is my opinion that the City has authority to disallow ineligible costs claimed by the contractor.

Although Section 4 of the contract refers to payment of a "fixed fee," the clause notes that (1) the fees are payments up to a specified amount, and (2) those payments are made according to the standards in Schedule C. By its express terms, this clause does not obligate the City to pay the entire grant amount as a fixed fee. Moreover, Exhibit C specifically provides that the grant funds are to be used only for costs, payments, and disbursements which are "eligible" as defined in federal rules and regulations."

Our review found that of the \$269,535 the City paid to CVC, \$160,462 was for Direct Costs and the remaining amount, \$109,073, or 40 percent, of total project revenues, was CVC's gross profit on the project. The gross profit, which was 68 percent of CVC's direct costs on the project, was used to pay for a portion of CVC's overhead costs. In this report, we will refer to the amount that went to pay for CVC's overhead as Corporate Costs. CVC's Corporate Costs were comprised of the costs of administrative staff time and a portion of the rent, utilities, telephone, consultants, and travel. Administrative staff time includes time spent by the company's administrative staff working on individual contracts such as the San Jose project, for which the projects are not directly charged, as well as their time spent on "non-billable" activities such as marketing and general administration. For example, the hours that the CVC President and other administrative staff spent working on the San Jose project were not directly charged to the project but were paid for out of Corporate Costs.

Federal regulations governing the use of CDBG funds\* require a written cost allocation plan to explain the method

\*OMB circular A-102, "Uniform Requirements for Assistance to State and Local Governments"

used to determine the amount of funds that can be used to pay for indirect costs. These regulations require a written cost allocation plan that provides sufficient information to substantiate the propriety of all indirect costs charged to the project, specifies the expenses and the nature and extent of services provided for those expenses, and explains the methods used in distributing costs. Furthermore, Federal regulations require that indirect costs be calculated by determining the actual amount of overhead costs that are allocable to the project. As an alternative, the Federal regulations allow indirect costs to be based on a predetermined fixed rate or a negotiated lump sum amount.

In reviewing the \$109,073 in Corporate Costs, Audit staff noted that CVC did not determine that amount based upon a written cost allocation plan in spite of Federal regulations and contract provisions to do so. Furthermore, it did not use an acceptable method to allocate these costs. Instead, the amount that went to pay for its Corporate Costs was the difference between Total Project Revenues and Total Project Direct Cost as follows:

Total Project Revenues	\$ 269,535
Less: Total Direct Costs	<u>160,462</u>
Remainder (Corporate Costs)	<u>\$ 109,073</u>

Because CVC did not comply with Federal regulations for determining its Corporate Costs, the City could potentially be liable for repaying a portion or all of the \$109,073 to the Federal government. According to a representative of the U. S. Department of Housing and Urban Development (HUD), the City could potentially be liable for repaying the funds to the Federal government if a federal audit determined that these costs should be disallowed.

Because CVC did not develop a written cost allocation plan, we have no basis for determining the amount of Corporate Costs that should be allowed. However, our analysis indicates that these costs may be excessive. For example, the City uses an actual indirect cost rate to charge the Federal government for the City's indirect cost of administering Federal programs. The indirect cost rate for the Neighborhood Preservation Office's Housing Program, which funded the City Venture Project, is 28.208 percent of direct labor cost (excluding fringe benefits). If CVC applied this rate to the \$91,405

in direct labor costs, its Corporate Costs would have been \$25,748, or \$83,325 less than it claimed. Thus, it appears that CVC's Corporate, or indirect costs, may be excessive.

The Neighborhood Preservation Office did not administer this contract like other CDBG-funded projects. In administering this contract, the Neighborhood Preservation Office (office) did not require CVC to submit detailed line-item budget at the outset of the project and it did not review project expenditures during the project year. If it had done so, as it does for other CDBG funded projects, the office probably could have limited the amount of Corporate Costs that CVC claimed. Normally, the office requires agencies to submit detailed line-item budgets, which provide information on project costs and establish expenditure guidelines for each of the project cost categories. In addition, it also requires agencies to submit periodic expenditure reports which it reviews to insure that costs are appropriate and in accordance with the project budget. However, for this project, the office did not require CVC to submit a detailed line-item budget or submit periodic reports of expenditures. Consequently, the office did not have sufficient information on project costs, at the outset of the project and during the project year, to limit CVC's Corporate Costs.

According to Neighborhood Preservation Office officials, it did not administer this contract like other CDBG-funded projects; because, at the outset of the project, it was decided to rely on an independent Certified Public Accountant (CPA) to review project expenditures. Prior to contracting with CVC, an office official conferred with representatives from the City Auditor's Office and the City Attorney's Office to determine the method to be used for reviewing project expenditures. Because CVC was located in Minneapolis, which made it difficult for the office to review project expenditures, it was decided that a Certified Public Accountant would be used to review the expenditures for conformance with applicable Federal regulations.

The CPA certified that all of CVC's costs were eligible for reimbursement. After receiving the audit report from CVC's CPA, the office questioned the manner in which CVC's Corporate Costs were determined. The CPA responded that the audit was conducted in conformance with applicable Federal regulations. After receiving this notification, the office paid CVC. The correspondence from the office to City Venture Corporation requesting information on how its Corporate Costs were determined is shown in Attachment I; and, the correspondence

from the CPA to the Neighborhood Preservation Office stating that the audit was conducted in accordance with applicable Federal regulations is shown in Attachment II.

### **CONCLUSION**

Our review found that City Venture Corporation did not determine its \$109,073 in Corporate Costs in accordance in applicable Federal regulations. As a result, the City is potentially liable to repay the Federal government for a portion or all of this amount. We also found that the City's Neighborhood Preservation Office did not require a binding project budget, which left the office at a disadvantage in monitoring project expenses.

### **RECOMMENDATIONS**

It is recommended that:

#### **Recommendation #1:**

The City Council should direct the Director of the Neighborhood Preservation Office to initiate action to secure repayment of the \$109,073 in Corporate Costs that CVC claimed. (Priority 1)

#### **Recommendation #2:**

The City Council should direct the Neighborhood Preservation Office to include detailed line-item budgets in all contracts with organizations that receive funding from the City's CDBG Program in order to ensure the City's fiscal control over CDBG-funded projects. (Priority 2)

Approximately five other CVC staff members played roles in the San Jose project with their time commitments ranging from one week to several months.

The \$23,038 that CVC spent for staff time does not include any time allocated to the San Jose project by the CVC president or other administrative staff. The cost of their time is included in Corporate Costs although the exact amount of their time actually spent on the project is not known because they did not keep time records. A listing of the CVC staff members who worked on the project, their roles, and the total time they spent on the project, is included as Appendix II to this report.

Consultants: \$56,604 was expended during the project year for the Project Director and the Project Associate, both of whom were considered consultants by CVC. The Project Director's monthly salary was \$3,325 (\$39,900 annually) and the Project Associate earned \$2,700 per month (\$32,400 annually), both paid on a flat fee basis. Their duties, as outlined in their contracts with CVC, were to perform the project tasks outlined in the Scope of Services section of contract with the City. Assistance in performing these duties was to be provided by CVC staff, as necessary. However, we were unable to determine how much time these two consultants actually spent working on the project or how their overall time was spent because CVC did not require either of them to keep time records.

The contract required that the City be notified by CVC in advance if the company were going to use any sub-contractors on the project. CVC did not notify the City in advance of hiring these two consultants, which appears to be a violation of one of the contract's procedural requirements. Overall, this violation does not appear to have affected project performance.

Temporary Clerical Staff: A Secretary was employed at the San Jose project office at a total cost of \$14,592.

#### \$28,649 was Spent on San Jose Project Office Expenses

During the project year, CVC rented office space on Alum Rock Avenue for regular use by the Project Director, Project Associate and Secretary. The primary expenses incurred for this office space included rent, office supplies, photocopy equipment rental, electricity, telephone, furniture, and business meetings. For example, CVC spent approximately \$3,900

**TABLE IV**  
**BREAKDOWN OF TRAVEL COSTS**

	<u>Phase I</u>	<u>Phase II</u>	<u>Total</u>
Travel:			
Fares	\$9,026	\$1,808	\$10,834
Car Rental	1,428	280	1,708
Lodging	3,391	742	4,133
Per Diems	745	301	1,046
Local Mileage	538	930	1,468
Other	<u>286</u>	<u>104</u>	<u>390</u>
Total Travel Costs	<u>\$15,414</u>	<u>\$4,165</u>	<u>\$19,579</u>

The purpose of each trip, as summarized by Mr. Harold Thieste, president of CVC during the project year, is presented in Appendix III.

**\$18,000 was Spent on Other Direct Costs: Business and Technology Center Fee and Financial Audit**

CVC spent \$18,000 on other Direct Costs that were charged to the project. These other costs were as follows:

**TABLE V**  
**BREAKDOWN OF OTHER DIRECT COSTS**

	<u>Phase I</u>	<u>Phase II</u>	<u>Total</u>
Business and Technology Center Fee	\$15,000	\$ 0	\$15,000
Phase I Financial Audit	<u>2,800</u>	<u>200</u>	<u>3,000</u>
Total Other Costs	<u>\$17,800</u>	<u>\$ 200</u>	<u>\$18,000</u>

According to CVC staff, the \$15,000 Business and Technology Center Fee is a cost that CVC paid to Control Data Corporation. The rationale for this fee, according to CVC and Control Data Corporation representatives, is that Control Data spent money and time developing the BTC concept from which the City will benefit. Control Data representatives report that the fee is required as a payment for the expertise that Control Data has built up over the years and provided to CVC. CVC reports that the fee is charged on all of their economic development projects and that after the BTC is established, Control Data Corporation charges additional annual license fees to the owner of the establishment.

Although the BTC Fee diverted \$15,000 of the project's funds away from direct service expenses, it appears to be an allowable cost under the terms of the contract. The absence of a project budget in the contract, which would have provided the City with a means of controlling project costs precludes disallowing the BTC Fee. In addition, Federal regulations do not specifically prohibit this cost.

The City required CVC to have financial audits performed by Certified Public Accountants for both phases of the project. The Phase I audit, conducted by Peat, Marwick, & Mitchell, cost \$3,000. The Phase II audit, conducted by McGladrey, Hendrickson and Pollen, was not charged as a direct cost to this contract.

#### \$109,073 was Allocated to Corporate Costs

CVC allocated the remaining \$109,073 in revenues to Corporate Costs. Information on these costs is provided in FINDING 1 of the report.

#### CONCLUSION

Total project revenues amounted to \$269,535 and total direct costs, which included project personnel, travel, office expenses, and other costs, amounted to \$160,462. The remaining amount, \$109,073, was allocated to Corporate Costs. Though limited by the absence of a project budget with which actual expenses could be compared, our review of CVC's project expenses has shown that most of the \$160,402 in direct costs charged to the project were reasonable and appear to be allowable except for approximately \$400 in air fare charges inappropriately charged to the San Jose project. The appropriateness of the \$109,073 that CVC charged for its Corporate Costs is discussed in FINDING 1 of the report.

#### RECOMMENDATION

It is recommended that:

##### **Recommendation #3:**

The City Council should direct the Neighborhood Preservation Office to disallow the \$400 that was inappropriately charged to the contract for air fare expenses. (Priority 1)



### FINDING 3

#### BENEFITS OF CITY VENTURE CORPORATION'S SERVICES

The tasks that CVC were obligated to perform were originally divided into six elements in the contract's Scope of Services. The Scope of Services was revised during Phase II of the project at which time some elements and tasks were added and deleted. These revisions were made to reflect the project Advisory committee's priorities. A detailed chart listing the specific project tasks and CVC's success in performing them is presented in Appendix IV to this report.

It should be noted that CVC was not contractually obligated to actually create and maintain the small business network or to create any new jobs; rather, it was obligated by its contract to provide a variety of services that would enable the City to establish and maintain such a network so that small businesses could be generated and attendant jobs created after the project was over.

The small business network was to be maintained primarily through an Advisory Committee formed during the project year and comprised of representatives of the public and private sectors. When the project ended, some members of the Advisory Committee joined the San Jose Development Corporation's Board of Directors. The San Jose Development Corporation is a community development corporation with similar goals as the CVC project. A summary of CVC's contractual obligations and actual performance in each of the project elements is shown below. Performance information was gathered from the City's quarterly project monitoring reports and project files available at CVC's corporate headquarters.

1. Business Identification Program: As required, CVC conducted a survey of the San Jose area to identify potential small business opportunities. A report was prepared containing the results of this survey and information about sources of assistance for starting a small business in the San Jose area.
2. Cooperation Office: The required start-up of a clearinghouse to link volunteer specialists from the community to small businesspersons needing technical assistance was accomplished by the end of the project year.
3. Seed Capital Fund: Most of CVC's required tasks for the development of a privately funded source of capital for small businesses were deleted when the scope of services was revised.

4. Business and Technology Center (BTC): CVC was required to work with an Advisory Committee task force in locating a site, a licensee, and a financing plan for establishment of a BTC in San Jose's East Side; however, CVC was not required to actually establish the BTC during the project year. As shown in Appendix III, approximately one-half of this element's original tasks were deleted in the revised Scope of Services. However, progress has been made on the establishment of this enterprise since the project ended.
5. Community Education/Outreach: CVC conducted a workshop to identify individuals interested in starting small businesses. Another workshop was deleted in the revised Scope of Services. Most of the other tasks in this element were accomplished.
6. Small Business Education Program: CVC accomplished most of this element's required tasks during the project year.

Elements 5 and 6, "Community Education/Outreach" and Small Business Education Program" were deleted from the Scope of Services when the project's contract was amended in May 1984. These new elements were added at that time, as follows:

1. Corporate and Project Promotional Program: CVC was required to develop a slide show for corporations on the project's objectives and goals and to confirm dates for presentation of the slide show to five corporations. CVC reportedly developed the slide show but had not confirmed presentation dates by the end of the project year.
2. Interim Business Service Center: CVC was successful in performing the required tasks for this element, which were added with the revised Scope of Services. These tasks did not include actually starting an Interim Business Service Center but consisted of providing the services necessary so that such a center could be opened after the project year had concluded. The Center was to serve as a temporary facility providing technical assistance to small businesses until the BTC was opened.
3. Community Development Corporation: CVC was successful in performing its required tasks regarding planning the establishment of a community development

Community Development Corporation: Establishment of a community development corporation to foster business investment on San Jose's East Side never materialized.

The City of San Jose also received an indirect benefit from its contract with CVC because the City was selected as one of several sites for a state-funded job training program administered by the Control Data Institute. In 1984, the Institute received a State grant of approximately \$400,000 in the San Jose area to train workers in computer repair and office automation. Though San Jose was not originally targeted to receive this grant, an official from the Employment Training Panel stated that funding was eventually provided to include San Jose due to the close affiliation between CVC and Control Data Institute and because the two projects were similar in nature.

#### CONCLUSION

CVC performed most, but not all, of the required tasks included in its contract with the City. However, the small business network that was supposed to materialize after CVC concluded its services does not yet exist. On the other hand, a network of economic development effort and investment in a Business and Technology Center (BTC) is being planned by Control Data Corporation and the South Bay Development Corporation for the Thunderbird Golf Course. However, because of the time required to implement a project of this nature, the benefits of the BTC, such as small business generation and new job creation on San Jose's East Side, have yet to materialize.

#### RECOMMENDATION

It is recommended that:

##### **Recommendation #4:**

The City Council require the Neighborhood Preservation Office to provide a summary of expected benefits that the City will realize as a result of its expenditures for future economic development implementation projects. The Neighborhood Preservation Office should require community-based organizations or private for-profit groups to submit proposals that include specific information on the number of jobs to be created, the cost per job to be created, and information on how these numbers were determined. (Priority 2)

CITY VENTURE  
corporation

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December 4, 1985

Mr. Michael Edmonds  
City of San Jose, California  
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San Jose, California 95110

Dear Mr. Edmonds:

City Venture Corporation has reviewed the draft report of the audit performed by the City of San Jose of the City Venture contract with the City. There are basically two fundamental issues raised by the report which are the focus of this letter. Your report indicated:

1. The contract was not a fixed fee contract.
2. City Venture's overhead expenses (Corporate Costs) were excessive and/or did not satisfy the guidelines of OMB Circular A-102.

We see these two points differently. We operated as if the contract was a fixed fee and we believe the expenses are within OMB guidelines.

Regarding item (1) above, City Venture entered into and fulfilled the agreement believing it was a fixed fee contract. This was consistent with our original proposal of \$469,482 for a 18-24 month contract. Furthermore, the city administered the contract, approved progress reports, and approved invoices for payment in accordance with this premise. During the entire course of the contract and its renewal period there was no indication that the city desired or believed it to be other than a fixed fee arrangement.

However, if the city's intent was to have a "cost plus" type of contract, then it can be clearly demonstrated that the costs incurred by City Venture on the contract meet all the eligibility standards for Community Development Block Grant funds (as discussed in (2) and may entitle City Venture to additional payment from the City.

Mr. Michael Edmonds  
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December 4, 1985

Regarding item (2) above, the U.S. Department of Labor has advised City Venture that, as a sub-recipient of the Federal funds, the corporation is not required to have an indirect cost rate. However, in view of the City's concern about this, we have calculated what the rate was in 1983 and 1984. This information is attached to this letter. This calculation is based on the indirect costs reflected in the company's records which have been audited by independent auditors as well as auditors from the City of San Jose.

According to this data, City Venture's indirect rate was 79.2% of direct costs for that two year period. This rate, exceeds the 68% rate charged to the San Jose contract. Because City Venture Corporation operated as if this was a fixed fee contract, we did not charge a full allocation of indirect costs, which resulted in a loss on the contract. If, however, this contract is not to be considered a fixed fee contract, City Venture's total chargeable costs for this contract would be \$160,196 x 79.2 or \$287,071, not including a reasonable profit percentage. Although this exceeds the assumed fixed fee of \$269,535 City Venture has not, to date, sought additional payment from the City of San Jose.

There are two other minor points which we would like to draw to your attention. On Page 6, Paragraph 2, there is an implication that corporate costs are the calculated difference between Project Revenues and total direct costs. This is not our method of calculating indirect project costs. On Page 12, Paragraph 2, the \$400 cost is reasonable. We would not have brought Gene Rodriguez to Minneapolis just for a Board Meeting. The primary reason for his trip to Minneapolis was to meet and work with Ricardo Garcia, the San Jose Project Manager.

We hope this clarifies the matter concerning City Venture's fee and related costs on this contract.

Sincerely,

*P. J. Gorman*

P. J. Gorman  
President

/kk

Attachment

cc: Gerald A. Silva  
Rita Hardin, Director  
Neighborhood Preservation

City Venture Corp  
1983-1987 Investment Cost

[illegible]

	1	2	3	4	5	6	7	8	9	10	11	12	13
	G-F	Product Dev	Total Marketing Cost	Total	G-F	Product Dev	Total Marketing Cost	Total	G-F	Product Dev	Total Marketing Cost	Total	
Travel	18070	1460			215184	17185							
Fares	2801	258				721							
Car Rental	7695	188				488							
Local mileage	5324	383				1103							
Meals	17198	1264				5231							
Hotel	2959	92				373							
Other	31557	3244		22801		26150		83331					
General													
Postage	3370	-				4143		48					
Insurance - Ques	4480	-				820		-					
Books - Summary	1546	1124				698		1126					
Printing	1668	1588				4886		939					
Services - Other	19536	-				29000		-					
Freight	2900	31				981		534					
Subscribers exp	1774	-				4278		-					
Salary	4926	88		19511		57462		2646				44507	
	46102	2809				4861							
Total	959173	166876	314719	1444779		67831	23% of direct	155903	321757			117541	98.9% of direct
Excluded not included	100853	-				134745							
Total	1060026	166876	314719	1545632		824576		155903	321757			1312234	
Direct Project Cost				1740496								1187760	
Total Interest 13.14%	2300210		79.2% of direct for 13.14%										

OFFICE OF THE CITY AUDITOR  
REPLY TO CITY VENTURE CORPORATION'S RESPONSE  
TO THE AUDIT OF CITY VENTURE CORPORATION'S  
COMMUNITY DEVELOPMENT BLOCK GRANT FUNDED PROJECT  
FOR THE CITY OF SAN JOSE

In response to the City Auditor's report, City Venture Corporation (CVC) raised five points that require a reply. First, we take issue with CVC's position that 1) the contract was a fixed-fee contract and 2) the City administered the contract accordingly. As shown on page 5, the City Attorney's Office provided our office with a legal opinion that states the City can disallow ineligible costs charged to the contract. In addition, the City administered the CVC contract in a manner consistent with that interpretation. For example, Neighborhood Preservation Office included a provision in the contract that required CVC to hire an independent Certified Public Accountant to certify that CVC's costs were determined in accordance with applicable Federal laws and regulations. Further, as stated on page 7 of the report, the Neighborhood Preservation Office withheld final payment to CVC until CVC's CPA's provided it with a notification that CVC's costs were determined in accordance with applicable Federal laws and regulations.

Second, we take issue with CVC's rationale that its overhead costs are not excessive and are within Office of Management and Budget (OMB) guidelines. On page 2 of its response, CVC states that it developed an indirect cost rate of 79.2 percent and as such its total project costs were actually \$287,071 (not the \$269,535 billed to the city.) In order to arrive at the \$287,071, CVC 1) totaled its overhead costs and its direct costs from all projects in 1983 and 1984, 2) calculated the percentage of total overhead costs to total direct costs and 3) applied this percentage, 79.2, to the direct costs charged to the San Jose project. It should be noted that the above methodology does not meet OMB guidelines for calculating indirect costs. For example, CVC's methodology still lacks a written cost allocation plan that identifies how all of the overhead costs used in the calculation were relevant to the San Jose project.

Third, with regard to CVC's contention that the U.S. Department of Labor has advised them that they do not need an indirect cost rate, two comments need to be made. First, at no time has the Staff from the City Auditor's Office or the Harvey Rose Accounting Corporation seen any evidence to support CVC's statement regarding the Department of Labor's position. In fact, CVC has yet to produce any supporting documentation. Second, even if CVC could substantiate its claim regarding the Department of Labor it would have no relevancy to the San Jose Project, which was funded through the Community Development



Block Grant (CDBG) Program. As such, the use of CDBG Funds is governed by CDBG regulations, applicable OMB guidelines, and the Department of Housing and Urban Development (HUD). According to officials from HUD, CVC must comply with the above regulations in determining its indirect costs.

Fourth, we take issue with CVC's point that the primary purpose for Gene Rodriguez's trip to Minneapolis was to meet with the San Jose Project Manager. Our review of CVC's own travel records showed no evidence that the primary purpose of his trip was to meet with the San Jose Project Manager. On the contrary, CVC's records showed that Mr. Rodriguez attended the meeting because he was scheduled to speak.

Finally, CVC states that the Corporate Costs are not the calculated difference between Project Revenues and Total Direct Costs. We have modified our report in response to CVC's comments.

APPENDIX I

**PROJECT AUDIT RESULTS AS  
REPORTED BY CVC'S  
CERTIFIED PUBLIC ACCOUNTANTS**

<u>Cost Category</u>	<u>Phase I</u>	<u>Phase II</u>	<u>Total</u>
Personnel	\$ 24,063	\$ 13,567	\$ 37,630
Consultants	20,454	36,350	56,804
Office Expenses	13,125	14,135	27,260
Furniture	3,909	-0-	3,909
Travel	15,428	4,165	19,593
BTC Fee	<u>15,000</u>	<u>-0-</u>	<u>15,000</u>
Total Direct	\$ 91,979	\$ 68,217	\$160,196
Corporate Costs	<u>58,021</u>	<u>51,318</u>	<u>109,339</u>
Total Costs	<u>\$150,000</u>	<u>\$119,535</u>	<u>\$269,535</u>

APPENDIX II

CVC PROJECT STAFFING

<u>Employee</u>	<u>Role</u>	<u>Time Allocated</u>	<u>Total Cost</u>
D. Merriweather	Interim Project Director	3.75	\$ 9,816
J. Gravender	Business and Technology Center Specialist	1.75	6,115
P. Tucker	Education/Training and Community Dvlpt. Specialist	1.05	2,573
C. Kercheval	Project Consultant	0.5	1,705
M. Kelm-Helgen	Project Consultant	Not recorded	
J. Sahmet	Project Consultant	Not recorded	
Subtotal			\$ 20,209
14% Effective Fringe Benefit Rate			<u>2,829</u>
GRAND TOTAL			\$ <u>23,038</u>

APPENDIX III

PURPOSE OF TRIPS CHARGED TO  
SAN JOSE PROJECT

<u>Employee</u>	<u>Trip</u>	<u>Purpose</u>
<u>June, 1983</u>		
1) D. Merriweather	Minneapolis/San Jose RT*	- Project start-up
2) P. Tucker	Toledo/San Jose RT	- Assistance with Job Bank
<u>July, 1983</u>		
3) D. Merriweather	Minneapolis/San Jose RT	- Project start-up
4) M. Kelm-Helgen	Minneapolis/San Jose RT	- Project start-up
5) D. Merriweather	Minneapolis/San Jose RT	- Project start-up
		- Business Identification Survey
<u>August, 1983</u>		
6) D. Merriweather	Minneapolis/San Jose RT	- Project start-up
		- Business Identification Survey
7) D. Merriweather	Minneapolis/San Jose RT	- Business Identification Survey
8) P. Tucker	Toledo/San Jose	- Assistance with Job Bank
<u>September, 1983</u>		
9) D. Merriweather	Minneapolis/San Jose RT	- Business Identification Survey
10) D. Merriweather	Minneapolis/San Jose RT	- Business Identification Survey
11) J. Gravender	Minneapolis/San Jose RT	- Initial Investigation for BTC Site
12) G. Rodriguez	Minneapolis/San Jose RT	- Assisting Project Director
<u>October, 1983</u>		
13) G. Rodriguez	San Antonio/San Jose RT	- Assisting Project Director
<u>November, 1983</u>		
14) C. Kercheval	Minneapolis/San Jose RT	- Assisting Project Director
15) R. Garcia	San Jose/Minneapolis RT	- Training

\*RT - Round Trip

<u>Employee</u>	<u>Trip</u>	<u>Purpose</u>
<u>December, 1983</u>		
16) G. Rodriguez	San Antonio/San Jose RT	- Met with San Jose Officials
17) H. Theiste	San Antonio/San Jose RT	- Met with San Jose Officials
<u>January, 1984</u>		
18) R. Garcia	San Jose/Minneapolis RT	- Meeting with all CVC Project Directors
<u>February, 1984</u>		
19) C. Kercheval	Minneapolis/San Jose RT	- Redesigning project work plan
20) C. Kercheval	Minneapolis/San Jose RT	- Redesigning project work plan
<u>May, 1984</u>		
21) J. Gravender	Minneapolis/San Jose RT	- Follow up on BTC site
<u>June, 1984</u>		
22) C. Kercheval	Minneapolis/San Jose RT	- Meeting with Advisory Committee
<u>July, 1984</u>		
23) R. Garcia	San Jose/Minneapolis RT	- Preparation for meeting with CVC stock-holders
<u>August, 1984</u>		
24) R. Garcia	San Jose/Minneapolis RT	- Meeting with CVC stock-holders

\*RT - Round Trip

## APPENDIX IV

### CITY VENTURE CORPORATION'S SUCCESS IN PERFORMING ITS SCOPE OF SERVICES FOR THE CITY OF SAN JOSE

Element/Task	Quarter Completed				IV
	I	II	III		
BUSINESS IDENTIFICATION PROGRAM					
<u>1st Quarter</u>					
- On-site interviews with 20 corporate purchasing personnel to determine product and service needs of local vendors	YES				
- Analyze interview results	YES				
- Develop list of 5-10 most viable ideas	YES				
<u>2nd Quarter</u>					
- Review list of viable ideas with 5-10 Purchasing Personnel		YES			
- Identify and analyze competition for 3-5 of the ideas		YES			
- Research markets for 3-5 of the ideas		YES			
- Finalize list of 3 of the most viable of the ideas		YES			
<u>3rd Quarter</u>					
- Determine resources needed to start small business				YES	
<u>4th Quarter</u>					
- Prepare three research documents assessing the potential for each of the three business ideas					Dltd
- Present findings to Advisory Committee					Dltd

Note: Key to all symbols used provided on last page.

<u>Element/Task</u>	<u>Quarter Completed</u>			
	<u>I</u>	<u>II</u>	<u>III</u>	<u>IV</u>

#### COMMUNITY EDUCATION/OUTREACH

##### 1st Quarter

- Identify working relationships with other economic development organizations YES
- Develop format for community based small business forums/ workshops and present to Advisory Committee YES
- Identify one or more co-sponsors for the forum/ workshops YES
- Solicit 20-30 interested participants YES

##### 2nd Quarter

- Conduct first forum/ workshop YES
- Screen the best ideas and entrepreneurs and identify at least 10 to be served by the Cooperation Office in 3rd Quarter YES

##### 3rd Quarter

- Conduct second workshop and repeat other 2nd Quarter activities Dlt'd

#### COOPERATION OFFICE

##### 1st Quarter

- Advisory Committee appoints Task Force and CVC orients them Dfrrd YES
- Identify and analyze existing small business services in San Jose; prepare summary for Task Force YES
- Determine service gaps and present to Task Force n.a.
- Develop and recommended strategy to fill gaps Dfrrd YES

Note: Key to all symbols used provided on last page.

<u>Element/Task</u>	Quarter Completed			
	<u>I</u>	<u>II</u>	<u>III</u>	<u>IV</u>
<u>2nd Quarter</u>				
- Task Force adopts strategy to fill gaps		YES		
- CVC works with Task Force to establish Cooperation Office		Part'l		
<u>3rd Quarter</u>				
- Program becomes operational and provides service to at least 10 clients				Dltd
- *Program becomes operational and provides services to at least 7 clients for at least 10 hours each			YES	
- Secure private sector commitments to fund-raise			Dltd	
<u>4th Quarter</u>				
- Serve 10 additional clients				Dltd
- Repeat 3rd Quarter activities				Part'l
SEED CAPITAL FUND				
<u>1st Quarter</u>				
- Identify and analyze existing financial resource available to small businesses in San Jose; prepare summary	YES			
<u>3rd Quarter</u>				
- Advisory committee appoints Task Force and CVC orients them				Dltd
- Determine range of necessary capitalization with assistance of Advisory Committee			NO	
- Work with local contacts to identify 10-20 potential investors			Dltd	
- Prepare and give formal presentation to 10-20 potential investors			Dltd	

Note: Key to all symbols used provided on last page.



<u>Element/Task</u>	Quarter Completed			
	<u>I</u>	<u>II</u>	<u>III</u>	<u>IV</u>
- Follow-up presentation			Dltd	
- Identify lead investors			Dltd	
- *Identify potential capital resources and/or investors from public, private, and governmental sectors			n.a.	n.a.
<u>4th Quarter</u>				
- Develop organizational options			Dltd	
- Provide draft of investment documents to Advisory Board and assist lead investors			Dltd	
- Provide staff resources				Dltd
- Establish broad investment objectives and operating procedures				Dltd
- *Advisory Committee forms Capital Formation Investment Team				YES
- *Present comprehensive investment plan and marketing plan to Advisory Committee				YES

#### **BUSINESS AND TECHNOLOGY CENTER (BTC)**

##### 1st Quarter

- Advisory Committee appoints Task Force and CVC orients them	NO	n.a.
- Inventory of existing small business assistance services	YES	
- Interviews with up to 5 potential BTC service program operators	n.a.	n.a.
- Inventory of prevailing local office and industrial facility rental rates, vacancy rates, etc.	YES	
- Establish site selection data	YES	
- Present findings to Task Force	NO	n.a.

Note: Key to all symbols used provided on last page.

<u>Element/Task</u>	<u>I</u>	<u>Quarter</u> <u>II</u>	<u>Completed</u> <u>III</u>	<u>IV</u>
<u>2nd Quarter</u>				
- Conduct on-site inspection of at least 3 BTC sites		YES		
- Review local development incentives and identify appropriate financing		YES		
- Develop proposed program of on-site services and facilities		NO		
- Prepare project cost estimate and financial parameters		YES		
- Prepare computer-based financial analysis of BTC services		n.a.		
- Present findings to Task Force and Advisory Committee		NO		
<u>3rd Quarter</u>				
- Review findings and recommend to CVC Task Force a composite BTC development package			Dltd	
- Identify proposed BTC owner			NO	YES
- Identify proposed BTC "licensee"			NO	YES
- Present findings to Task Force and Advisory Committee			Dltd	
- *Identify proposed BTC site			n.a.	n.a.
<u>4th Quarter</u>				
- Assist BTC owner/developer in selection of consultants and determining project costs				Dltd
- Assist BTC owner in developing project prospectus				Dltd
- Assist BTC owner in securing necessary project financing				Dltd
- Assist BTC owner in securing necessary local project approval				Dltd
- *Begin preliminary negotiations with proposed owner/developer regarding design, cost and financing of BTC site				YES

Note: Key to all symbols used provided on last page.

<u>Element/Task</u>	<u>I</u>	<u>II</u>	<u>III</u>	<u>IV</u>
- *Begin discussions with local governmental departments to identify probable development incentives for BTC site, and present to Advisory Committee				YES
- *Assist proposed BTC licensee in developing financial, management and operational plan				YES
<b>SMALL BUSINESS EDUCATION PROGRAM</b>				
<u>1st Quarter</u>				
- Analyze existing small business media programs	YES			
<u>2nd Quarter</u>				
- Present 1st Quarter findings to Advisory Committee and solicit input for team			n.a.	
- Identify team to prepare slide programs for small business development			n.a.	
<u>3rd Quarter</u>				
- Prepare slide show on Small Business Development				Dltd
- Identify first school system for implementation				Dltd
- Establish linkages to Entrepreneur Identification Program				Dltd
- Conduct first presentation in school				Dltd
<u>4th Quarter</u>				
- Continue presentation in two additional schools				Dltd
<b>*COMMUNITY DEVELOPMENT CORPORATION (CDC)</b>				
<u>3rd Quarter</u>				
- *Develop preliminary objectives and structure			n.a.	n.a.

Note: Key to all symbols used provided on last page.

<u>Element/Task</u>	<u>I</u>	<u>II</u>	<u>III</u>	<u>IV</u>
<u>4th Quarter</u>				
- *Present formal programmatic and operational plan				YES
- *Present a three and five year business plan for CVC				YES
<b>*INTERIM BUSINESS SERVICE CENTER</b>				
<u>3rd Quarter</u>				
- *Identify at least two potential sites			n.a.	n.a.
- *Begin negotiations with site owners			n.a.	n.a.
<u>4th Quarter</u>				
- *Establish Advisory Committee Development Team				YES
- *Prepare list of 4 private-public agencies that provide assistance to neighborhood commercial revitalization projects				YES
- *Advisory Committee approves project management and business plan for Center				YES
<b>*CORPORATE AND PROJECT PROMOTIONAL PROGRAM</b>				
<u>3rd Quarter</u>				
- *Develop Program objectives and structure			n.a.	n.a.
- *Identify initial Presentation Team			n.a.	n.a.
<u>4th Quarter</u>				
- *Develop formal presentation package				YES
- *Develop preliminary slide show				

Note: Key to all symbols used provided on last page.

<u>Element/Task</u>	<u>I</u>	<u>II</u>	<u>III</u>	<u>IV</u>
presentation				YES
- *Identify five (5) major corporations and confirm dates for formal project presentation				Part'l
*Present the above items (a) through (c) to Advisory Committee				YES

KEY

n.a.	=	Information not available in quarterly reports on this task
Dfrrd	=	Task deferred by CVC
Dltd	=	Task deleted when Scope of Services revised for Phase II
*	=	Added when Scope of Services revised for Phase II
Part'l	=	Task partially performed

Source: Project quarterly reports were compared to the project's Scope of Services in the project contract.



# CITY OF SAN JOSÉ, CALIFORNIA

801 NORTH FIRST STREET, ROOM 400  
SAN JOSE, CALIFORNIA 95110

DEPARTMENT OF  
PRIVATE DEVELOPMENT

February 15, 1984

Ms. Norma Anderson  
Director Finance and Administration  
City Venture Corporation  
400 Marquette Avenue  
Minneapolis, Minn 55401

Dear Ms. Anderson:

I have received the Peat Marwick Auditor's Report on the City of San Jose CDBG funded City Venture Program. It covers the period June 7, 1983 to December 31, 1983. I was pleased to note that the auditors stated that there were no questioned costs and that the audit broke down the types of expenditures into seven categories.

Being the first for-profit project we have funded there are some additional questions that have arisen. It would be appreciated if you could work with Peat Marwick in obtaining the information to the points below:

I have made several assumptions regarding the exhibit B. Please confirm them or if not correct provide another response.

1. Personnel, including fringe benefits are only for the employees of City Venture in San Jose. There is backup in your office for the fringe.
2. Office expenses and administrative overhead are for expenses such as rent, phones, electricity, supplies at the San Jose office. The administrative overhead rate is charged to all of your projects on a basis which is covered in the OMB circulars. As overhead rates are closely looked at by HUD, an explanation of how it was derived in general terms and its application to CDBG is hereby requested.
3. Office furniture and equipment are for those items at the San Jose office only and you realize that the City may take possession of them at the time that CDBG or Jobs Bill funding ends.
4. Travel is only for City Venture employees, either for the San Jose office or for corporate personnel. For the corporate personnel, the travel was needed to provide the initial contract negotiation staff and the initial office support in San Jose, and for the corporate personnel to provide assistance to the project after that time.

Ms. Norma Anderson

-2-

2/15/84

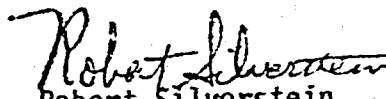
5. The \$20,454 in consulting services were a surprise to me because I had believed that the services would be carried out by the project itself. Further, the CDBG contract with you at section 9E requires prior City approval. There are no records of any requests for contract services, thus no City approvals. It thus is questioned how the \$20,454 was determined by Peat Marwick to meet the terms of the CDBG agreement. This item will require a response from Peat Marwick, as we will not reimburse on items that have not met the conditions of the agreement.
6. Business Technology Center Development costs are those which relate to pages 4, 5 and 6 in your City agreement. The \$15,000 shown as an expenditure in the audit report had no backup. As these costs do not relate to staff costs, which are covered under personnel, I am at somewhat of a loss as to their use. Please provide an explanation for the use of the funds.
7. Corporate costs are identified by the audit as an allocation to individual contracts. The indirect corporate overhead cost is, I assume, applied uniformly to each and every project throughout the corporation for all activities both public and private. As the \$58,021 is more than 1/3 of your costs, we are looking for a statement from Peat Marwick that they have reviewed a cost allocation plan, that it is uniformly applied and that it meets the CDBG regulations.

On an overall basis, the audit does state that the Audit Guide and Standards for CDBG was used. While Peat Marwick is addressing the above items, please have them specifically state that they reviewed the audit as it is covered in the OMB Circular A-102. See that comment in section 1-02 of Exhibit C of your City agreement.

Upon receipt of appropriate comments from you and Peat Marwick, we will proceed with the reimbursement.

Should you have any questions on the above, feel free to call me at (408) 277-4971.

Sincerely,

  
Robert Silverstein  
CDBG Coordinator



Peat, Marwick, Mitchell & Co.  
Certified Public Accountants  
1700 IDS Center  
Minneapolis, Minnesota 55402  
612-341-2222

April 10, 1984

Mr. Robert Silverstein  
CDBG Coordinator  
City of San Jose  
801 North First Street, #401  
San Jose, CA 95110

Dear Mr. Silverstein:

I am writing at the request of City Venture Corporation to reconfirm to you the basis for our audit report on the San Jose contract. As stated in our report, dated January 13, 1984, our examination was made in accordance with generally accepted auditing standards and the provisions of the Department of Housing and Urban Development Audit Guide and Standards for Community Development Block Grant Recipients, including the applicable sections of OMB Circular A-102.

Very truly yours,

PEAT, MARWICK, MITCHELL & CO.



Timothy P. Flynn, Manager

TPF/cm

cc: Donna Flesher  
City Venture Corporation